



**uPHONGOLO Local Municipality  
Annual Financial Statements  
for the year ended 30 June 2019**

# **uPHONGOLO Local Municipality**

Annual Financial Statements for the year ended 30 June 2019

## **General Information**

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### **Nature of business and principal activities**

Local Municipality

### **Members of Council**

Executive committee

Cllr BC Nhlabathi - Honourable Mayor  
Cllr B Mvelase - Honourable Deputy Mayor  
Cllr VG Masuku - Honourable Speaker

Councillors

Cllr KE Nxumalo  
Cllr EN Buthelezi  
Cllr IA Stokfeer  
Cllr PS Ntshangase  
Cllr FF Simelane  
Cllr N Mntungwa - MPAC Chair  
Cllr NJ Mkhwanazi  
Cllr NT Mavimbela  
Cllr CB Ndlangamandla  
Cllr BC Gumbi  
Cllr SV Ndlangamandla  
Cllr NE Nxumalo  
Cllr D Nyawo  
Cllr JS Myeni  
Cllr DM Nkanjabanga  
Cllr SR Ntshangase  
Cllr JC Theron  
Cllr BR Shongwe  
Cllr VM Sikhosana  
Cllr MS Masuku  
Cllr GH Mpanza  
Cllr JW Buthelezi  
Cllr AZ Thabethe  
Cllr NP Mavuso  
Cllr TA Ntshangase  
Cllr PS Sibeko

### **Grading of local authority**

Grade 2  
Low capacity

### **Accounting Officer**

Mr WM Nxumalo

### **Chief Finance Officer (CFO)**

Mr JV Nkosi

### **Registered office**

61 Martin Street  
Pongola  
3170

### **Business address**

61 Martin Street  
Pongola  
3170

### **Postal address**

P O Box 191  
Pongola  
3170

### **Bankers**

First National Bank

# **uPHONGOLO Local Municipality**

Annual Financial Statements for the year ended 30 June 2019

## **General Information**

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**Auditors**

Auditor General South Africa

# **uPHONGOLO Local Municipality**

Annual Financial Statements for the year ended 30 June 2019

## **Index**

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The reports and statements set out below comprise the annual financial statements presented to the Council:

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COID	Compensation for Occupational Injuries and Diseases
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
IAS	International Accounting Standards
CIGFARO	Chartered Institute of Government Finance, Audit and Risk Officers
IPSAS	International Public Sector Accounting Standards
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant
mSCOA	Municipal Standard Chart Of Accounts

# **uPHONGOLO Local Municipality**

Annual Financial Statements for the year ended 30 June 2019

## **Accounting Officer's Responsibilities and Approval**

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

I **WM Nxumalo** acknowledges that I am ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable me to meet these responsibilities, I have set standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

I am of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

I have reviewed the municipality's cash flow forecast for the year to **30 June 2020** and, in the light of this review and the current financial position, I am satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is wholly dependent on the community and state for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the uPhongolo Municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

The external auditors are responsible for independently auditing and reporting on the municipality's annual financial statements. The annual financial statements have been audited by the municipality's external auditors.

The annual financial statements set out on pages 5 to 67, which have been prepared on the going concern basis, were approved and signed by the accounting officer on **31 August 2019**.



Mr WM Nxumalo  
Municipal Manager

# uPHONGOLO Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Statement of Financial Position as at 30 June 2019

Figures in Rand

	Note(s)	2019	2018 Restated*
<b>Assets</b>			
Current Assets			
Receivables from non-exchange transactions	8	75 159 422	66 399 501
VAT receivable	9	1 638 101	1 563 752
Prepayments	7	7 113	8 413
Receivables from exchange transactions	10	8 821 681	9 678 939
Cash and cash equivalents	11	7 166 586	450 470
		<b>92 792 903</b>	<b>78 101 075</b>
Non-Current Assets			
Investment property	2	101 336 000	90 295 000
Property, plant and equipment	3	372 997 835	361 108 952
Intangible assets	4	453 077	598 781
Heritage assets	5	70 945	70 945
		<b>474 857 857</b>	<b>452 073 678</b>
<b>Total Assets</b>		<b>567 650 760</b>	<b>530 174 753</b>
<b>Liabilities</b>			
Current Liabilities			
Finance lease obligation	12	2 049 416	298 586
Payables from exchange transactions	17	53 429 154	28 316 418
Consumer deposits	18	2 085 697	2 149 309
Unspent conditional grants and receipts	13	7 057 388	1 010 875
Provisions	14	85 000	118 717
Long term loans	16	3 850 735	3 581 239
		<b>68 557 390</b>	<b>35 475 144</b>
Non-Current Liabilities			
Other financial liabilities		341 542	341 542
Finance lease obligation	12	3 363 976	598 729
Employee benefit obligation	6	2 120 384	3 187 920
Provisions	14	7 002 686	6 569 124
Long-service awards	15	1 294 001	1 127 068
Long term loans	16	2 804 636	4 312 039
		<b>16 927 225</b>	<b>16 136 422</b>
<b>Total Liabilities</b>		<b>85 484 615</b>	<b>51 611 566</b>
<b>Net Assets</b>		<b>482 166 145</b>	<b>478 563 187</b>
Accumulated surplus		482 166 145	478 243 546

\* See Note

# uPHONGOLO Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Statement of Financial Performance

Figures in Rand

	Note(s)	2019	2018 Restated*
<b>Revenue</b>			
<b>Revenue from exchange transactions</b>			
Service charges	19	49 948 431	47 558 522
Rental of facilities and equipment	20	595 149	962 871
Interest received - trading	24	10 906 497	8 766 038
Licences and permits	22	1 476 333	1 369 765
Other income	25	2 345 014	2 616 645
Interest received - investment	26	1 520 370	1 357 451
<b>Total revenue from exchange transactions</b>		<b>66 791 794</b>	<b>62 631 292</b>
<b>Revenue from non-exchange transactions</b>			
<b>Taxation revenue</b>			
Property rates	27	37 551 080	28 666 473
<b>Transfer revenue</b>			
Government grants & subsidies	28	148 640 998	148 009 946
Fines, Penalties and Forfeits	21	1 981 400	1 390 770
<b>Total revenue from non-exchange transactions</b>		<b>188 173 478</b>	<b>178 067 189</b>
<b>Total revenue</b>		<b>254 965 272</b>	<b>240 698 481</b>
<b>Expenditure</b>			
Employee related costs	29	(83 336 099)	(74 468 744)
Remuneration of councillors	30	(9 716 739)	(9 371 468)
Depreciation and amortisation	31	(12 647 641)	(13 648 727)
Finance costs	32	(2 214 936)	(1 750 955)
Impairment loss	23	(611 363)	(9 850 491)
Debt Impairment	33	(19 114 494)	(11 723 859)
Bulk purchases	34	(27 756 027)	(25 375 565)
Contracted services	35	(23 432 543)	(30 093 204)
Transfers and subsidies		(316 376)	(102 384)
General Expenses	36	(83 644 041)	(45 006 405)
<b>Total expenditure</b>		<b>(262 790 259)</b>	<b>(221 391 802)</b>
<b>Operating (deficit) surplus</b>		<b>(7 824 987)</b>	<b>19 306 679</b>
Loss on unverified assets		(622 842)	(1 754 958)
Fair value adjustments	37	11 331 000	6 880 000
Actuarial gains/losses	6&15	1 039 430	(94 026)
		<b>11 747 588</b>	<b>5 031 016</b>
<b>Surplus for the year</b>		<b>3 922 601</b>	<b>24 337 695</b>

\* See Note

# **uPHONGOLO Local Municipality**

Annual Financial Statements for the year ended 30 June 2019

## **Statement of Changes in Net Assets**

Figures in Rand	Accumulated surplus	Total net assets
<b>Balance at 01 July 2017</b>	<b>453 905 851</b>	<b>453 905 851</b>
Changes in net assets		
Surplus for the year	24 337 695	24 337 695
Total changes	24 337 695	24 337 695
Adjustments		
Correction of errors Note 43	20 090 671	20 090 671
<b>Restated* Balance at 01 July 2018</b>	<b>478 243 544</b>	<b>478 243 544</b>
Changes in net assets		
Surplus for the year	3 922 601	3 922 601
Total changes	3 922 601	3 922 601
<b>Balance at 30 June 2019</b>	<b>482 166 145</b>	<b>482 166 145</b>

\* See Note



# uPHONGOLO Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Cash Flow Statement

Figures in Rand	Note(s)	2019	2018 Restated*
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Sale of goods and services		66 880 250	68 645 944
Grants		148 640 998	148 009 949
Interest income		1 520 370	1 357 451
		<u>217 041 618</u>	<u>218 013 344</u>
<b>Payments</b>			
Employee costs		(83 336 099)	(74 468 744)
Suppliers		(73 911 600)	(94 803 678)
Finance costs		(2 214 936)	(1 750 955)
Councillors allowances		(9 716 739)	(9 371 468)
		<u>(169 179 374)</u>	<u>(180 394 845)</u>
<b>Net cash flows from operating activities</b>	39	<b><u>47 862 244</u></b>	<b><u>37 618 499</u></b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	3	(25 036 428)	(47 625 907)
Purchase of other intangible assets	4	-	(416 336)
<b>Net cash flows from investing activities</b>		<b><u>(25 036 428)</u></b>	<b><u>(48 042 243)</u></b>
<b>Cash flows from financing activities</b>			
Repayments on Borrowings		(4 536 380)	(2 152 320)
Proceeds on Borrowings		2 756 225	4 940 038
<b>Net cash flows from financing activities</b>		<b><u>(1 780 155)</u></b>	<b><u>2 787 718</u></b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>6 716 116</b>	<b>(1 153 390)</b>
Cash and cash equivalents at the beginning of the year		450 470	1 603 860
<b>Cash and cash equivalents at the end of the year</b>	11	<b><u>7 166 586</u></b>	<b><u>450 470</u></b>

\* See Note

# uPHONGOLO Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Statement of Financial Performance</b>						
<b>Revenue</b>						
<b>Revenue from exchange transactions</b>						
Service charges	47 908 657	-	<b>47 908 657</b>	49 948 431	<b>2 039 774</b>	52
Rental of facilities and equipment	454 579	3 399	<b>457 978</b>	595 149	<b>137 171</b>	52
Interest received (trading)	8 096 103	2 763 923	<b>10 860 026</b>	10 906 497	<b>46 471</b>	52
Agency services	789 750	-	<b>789 750</b>	903 644	<b>113 894</b>	
Licences and permits	1 566 485	(212 045)	<b>1 354 440</b>	1 476 333	<b>121 893</b>	52
Other income	1 327 228	358 750	<b>1 685 978</b>	1 441 370	<b>(244 608)</b>	
Interest received - investment	1 548 583	(212 045)	<b>1 336 538</b>	1 520 370	<b>183 832</b>	51
<b>Total revenue from exchange transactions</b>	<b>61 691 385</b>	<b>2 701 982</b>	<b>64 393 367</b>	<b>66 791 794</b>	<b>2 398 427</b>	
<b>Revenue from non-exchange transactions</b>						
<b>Taxation revenue</b>						
Property rates	36 825 939	-	<b>36 825 939</b>	37 551 080	<b>725 141</b>	
<b>Transfer revenue</b>						
Government grants & subsidies	128 282 700	5 000 000	<b>133 282 700</b>	148 640 998	<b>15 358 298</b>	
Fines, Penalties and Forfeits	491 297	990 903	<b>1 482 200</b>	1 981 400	<b>499 200</b>	
<b>Total revenue from non-exchange transactions</b>	<b>165 599 936</b>	<b>5 990 903</b>	<b>171 590 839</b>	<b>188 173 478</b>	<b>16 582 639</b>	
<b>Total revenue</b>	<b>227 291 321</b>	<b>8 692 885</b>	<b>235 984 206</b>	<b>254 965 272</b>	<b>18 981 066</b>	
<b>Expenditure</b>						
Personnel	(89 102 986)	9 482 354	<b>(79 620 632)</b>	(83 336 099)	<b>(3 715 467)</b>	
Remuneration of councillors	(9 863 968)	237 617	<b>(9 626 351)</b>	(9 716 739)	<b>(90 388)</b>	
Depreciation and amortisation	(12 741 900)	(2 258 100)	<b>(15 000 000)</b>	(13 259 004)	<b>1 740 996</b>	51
Finance costs	(1 892 289)	-	<b>(1 892 289)</b>	(2 214 936)	<b>(322 647)</b>	
Debt Impairment	(15 707 255)	3 807 255	<b>(11 900 000)</b>	(19 114 494)	<b>(7 214 494)</b>	
Bulk purchases	(28 812 257)	-	<b>(28 812 257)</b>	(27 756 027)	<b>1 056 230</b>	
Contracted Services	(22 766 318)	(3 478 929)	<b>(26 245 247)</b>	(23 432 543)	<b>2 812 704</b>	
Transfers and subsidies	(2 543 659)	-	<b>(2 543 659)</b>	(316 376)	<b>2 227 283</b>	
General Expenses	(66 569 371)	(18 621 512)	<b>(85 190 883)</b>	(83 644 041)	<b>1 546 842</b>	
<b>Total expenditure</b>	<b>(250 000 003)</b>	<b>(10 831 315)</b>	<b>(260 831 318)</b>	<b>(262 790 259)</b>	<b>(1 958 941)</b>	
<b>Operating deficit</b>	<b>(22 708 682)</b>	<b>(2 138 430)</b>	<b>(24 847 112)</b>	<b>(7 824 987)</b>	<b>17 022 125</b>	
Loss on unverified assets	-	-	-	(622 842)	<b>(622 842)</b>	
Fair value adjustments	-	-	-	11 331 000	<b>11 331 000</b>	
Actuarial gains/losses	-	-	-	1 039 430	<b>1 039 430</b>	
	-	-	-	<b>11 747 588</b>	<b>11 747 588</b>	
<b>Surplus before taxation</b>	<b>(22 708 682)</b>	<b>(2 138 430)</b>	<b>(24 847 112)</b>	<b>3 922 601</b>	<b>28 769 713</b>	
<b>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b>	<b>(22 708 682)</b>	<b>(2 138 430)</b>	<b>(24 847 112)</b>	<b>3 922 601</b>	<b>28 769 713</b>	

# uPHONGOLO Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Statement of Financial Position</b>						
<b>Assets</b>						
<b>Current Assets</b>						
Receivables from non-exchange transactions	58 331 857	30 291 770	<b>88 623 627</b>	75 159 422	<b>(13 464 205)</b>	
VAT receivable	-	-	-	1 638 101	<b>1 638 101</b>	
Prepayments	-	-	-	7 113	<b>7 113</b>	
Receivables from exchange transactions	10 695 315	-	<b>10 695 315</b>	8 821 681	<b>(1 873 634)</b>	
Cash and cash equivalents	4 724 239	(4 209 339)	<b>514 900</b>	7 166 586	<b>6 651 686</b>	
	<b>73 751 411</b>	<b>26 082 431</b>	<b>99 833 842</b>	<b>92 792 903</b>	<b>(7 040 939)</b>	
<b>Non-Current Assets</b>						
Investment property	92 274 390	-	<b>92 274 390</b>	101 336 000	<b>9 061 610</b>	
Property, plant and equipment	508 784 867	(114 893 993)	<b>393 890 874</b>	372 997 835	<b>(20 893 039)</b>	
Intangible assets	-	500 000	<b>500 000</b>	453 077	<b>(46 923)</b>	
Heritage assets	70 945	-	<b>70 945</b>	70 945	-	
	<b>601 130 202</b>	<b>(114 393 993)</b>	<b>486 736 209</b>	<b>474 857 857</b>	<b>(11 878 352)</b>	
<b>Total Assets</b>	<b>674 881 613</b>	<b>(88 311 562)</b>	<b>586 570 051</b>	<b>567 650 760</b>	<b>(18 919 291)</b>	
<b>Liabilities</b>						
<b>Current Liabilities</b>						
Finance lease obligation	-	-	-	2 049 416	<b>2 049 416</b>	
Payables from exchange transactions	5 000 000	10 000 000	<b>15 000 000</b>	53 429 154	<b>38 429 154</b>	
Consumer deposits	2 868 664	-	<b>2 868 664</b>	2 085 697	<b>(782 967)</b>	
Unspent conditional grants and receipts	-	-	-	7 057 388	<b>7 057 388</b>	
Provisions	6 208 694	-	<b>6 208 694</b>	85 000	<b>(6 123 694)</b>	
Long term loans	3 249 948	(210 875)	<b>3 039 073</b>	3 850 735	<b>811 662</b>	
	<b>17 327 306</b>	<b>9 789 125</b>	<b>27 116 431</b>	<b>68 557 390</b>	<b>41 440 959</b>	
<b>Non-Current Liabilities</b>						
Revenue received in advance	-	-	-	341 542	<b>341 542</b>	
Finance lease obligation	5 000 000	5 849 657	<b>10 849 657</b>	3 363 976	<b>(7 485 681)</b>	
Employee benefit obligation	-	-	-	2 120 384	<b>2 120 384</b>	
Provisions	8 193 514	506 746	<b>8 700 260</b>	7 002 686	<b>(1 697 574)</b>	
Long-service awards	-	-	-	1 294 001	<b>1 294 001</b>	
Long term loans	-	-	-	2 804 636	<b>2 804 636</b>	
	<b>13 193 514</b>	<b>6 356 403</b>	<b>19 549 917</b>	<b>16 927 225</b>	<b>(2 622 692)</b>	
<b>Total Liabilities</b>	<b>30 520 820</b>	<b>16 145 528</b>	<b>46 666 348</b>	<b>85 484 615</b>	<b>38 818 267</b>	
<b>Net Assets</b>	<b>644 360 793</b>	<b>(104 457 090)</b>	<b>539 903 703</b>	<b>482 166 145</b>	<b>(57 737 558)</b>	

## uPHONGOLO Local Municipality

Annual Financial Statements for the year ended 30 June 2019

### Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Net Assets</b>						
<b>Net Assets Attributable to Owners of Controlling Entity</b>						
<b>Reserves</b>						
Accumulated surplus	644 360 793	(104 457 090)	<b>539 903 703</b>	482 166 145	<b>(57 737 558)</b>	

# uPHONGOLO Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
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Figures in Rand

### Cash Flow Statement

#### Cash flows from operating activities

##### Receipts

Sale of goods and services	73 133 545	4 000 000	<b>77 133 545</b>	66 880 250	<b>(10 253 295)</b>
Grants	161 979 034	10 269 000	<b>172 248 034</b>	148 640 998	<b>(23 607 036)</b>
Interest income	9 644 686	-	<b>9 644 686</b>	1 520 370	<b>(8 124 316)</b>
Other receipts	4 909 957	-	<b>4 909 957</b>	-	<b>(4 909 957)</b>
	<b>249 667 222</b>	<b>14 269 000</b>	<b>263 936 222</b>	<b>217 041 618</b>	<b>(46 894 604)</b>

##### Payments

Employee costs	(89 102 986)	9 482 354	<b>(79 620 632)</b>	(83 336 099)	<b>(3 715 467)</b>
Suppliers	(101 277 596)	(22 119 971)	<b>(123 397 567)</b>	(73 911 600)	<b>49 485 967</b>
Finance costs	(1 892 288)	-	<b>(1 892 288)</b>	(2 214 936)	<b>(322 648)</b>
Remuneration of councillors	(9 863 968)	237 617	<b>(9 626 351)</b>	(9 716 739)	<b>(90 388)</b>
Other payments	(2 543 659)	-	<b>(2 543 659)</b>	-	<b>2 543 659</b>
	<b>(204 680 497)</b>	<b>(12 400 000)</b>	<b>(217 080 497)</b>	<b>(169 179 374)</b>	<b>47 901 123</b>

<b>Net cash flows from operating activities</b>	<b>44 986 725</b>	<b>1 869 000</b>	<b>46 855 725</b>	<b>47 862 244</b>	<b>1 006 519</b>
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#### Cash flows from investing activities

Purchase of property, plant and equipment	(43 621 200)	(5 002 100)	<b>(48 623 300)</b>	(25 036 428)	<b>23 586 872</b>
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#### Cash flows from financing activities

Proceeds from borrowings	5 000 000	2 000 000	<b>7 000 000</b>	2 756 225	<b>(4 243 775)</b>
Repayment of borrowings	3 250 000	1 917 993	<b>5 167 993</b>	(4 536 380)	<b>(9 704 373)</b>

<b>Net cash flows from financing activities</b>	<b>8 250 000</b>	<b>3 917 993</b>	<b>12 167 993</b>	<b>(1 780 155)</b>	<b>(13 948 148)</b>
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<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>9 615 525</b>	<b>784 893</b>	<b>10 400 418</b>	<b>6 716 116</b>	<b>10 645 243</b>
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Cash and cash equivalents at the beginning of the year	1 603 862	(1 153 394)	<b>450 468</b>	450 470	<b>2</b>
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<b>Cash and cash equivalents at the end of the year</b>	<b>11 219 387</b>	<b>(368 501)</b>	<b>10 850 886</b>	<b>7 166 586</b>	<b>10 645 245</b>
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# **uPHONGOLO Local Municipality**

Annual Financial Statements for the year ended 30 June 2019

## **Accounting Policies**

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### **1. Presentation of Annual Financial Statements**

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise.

# uPHONGOLO Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below :

The municipality changes an accounting policy only if the change :

(a) Is required by a standard of GRAP or

(b) Results in the financial statements providing reliable and more relevant information about the effects of transactions , other events or conditions on the performance or cash flow .

The following GRAP standards have been approved and effective to the municipality :

GRAP 1	Presentation of Financial Statements
GRAP 2	Cash Flow Statements
GRAP 3	Accounting Policies , Changes in Accounting Estimates and Errors
GRAP 4	The effects of Changes in Foreign Exchange Rates
GRAP 5	Borrowing Costs
GRAP 6	Consolidated and Separate Financial Statements
GRAP 7	Investments in Associates
GRAP 8	Interest in Joint Ventures
GRAP 9	Revenue from Exchange Transactions
GRAP 10	Financial Reporting in Hyperinflationary Economies
GRAP 11	Construction Contracts
GRAP 12	Inventories
GRAP 13	Leases
GRAP 14	Events After Reporting Date
GRAP 16	Investment Property
GRAP 17	Property Plant and Equipment
GRAP 19	Provisions , Contingent Liabilities and Contingent Assets
GRAP 21	Impairment of Non - Cash generating Assets
GRAP 23	Revenue from Non- Exchange Transactions (Taxes and Transfers )
GRAP 24	Presentation of Budget Information in Financial Statements
GRAP 25	Employee Benefits
GRAP 26	Impairment of Cash- Generating Assets
GRAP 27	Agriculture
GRAP 31	Intangible Assets
GRAP 100	Discounted Operations
GRAP 103	Heritage Assets
GRAP 104	Financial Instruments
GRAP 106	Transfer of Function Between Entities Not Under common Control

### STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

The following GRAP standards have been issued but are not yet effective and have not been adopted early by the municipality:

GRAP 18	Segment Reporting
GRAP 109	Accounting by Principals and Agents
GRAP 20	Related Party Disclosures
GRAP 32	Service Concession Arrangements: Grantor
GRAP 34	Separate Financial Statements
GRAP 35	Consolidated Financial Statements
GRAP 36	Investments in Associates and Joint Ventures
GRAP 37	Joint Arrangements
GRAP 38	Disclosure of Interests in Other Entities
GRAP 108	Statutory Receivables
GRAP 110	Living and Non-living Resources
IGRAP 17	Interpretation of standard of GRAP on service concession arrangement where Interest in an Asset
IGRAP 18	Interpretation of the standard of GRAP on Recognition and Derecognition of Land
IGRAP 19	Liabilities to pay levies

Impact on the municipality's financial statements once implemented:

None of these standards and interpretations are anticipated to have a material impact on the municipality's financial statements.

# **uPHONGOLO Local Municipality**

Annual Financial Statements for the year ended 30 June 2019

## **Accounting Policies**

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Management has considered all of the foregoing GRAP standards issued but not yet effective and effective and anticipates that the adoption of these standards will not have a significant impact on the financial position, financial performance or cash flows of the municipality.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below:

These accounting policies are consistent with the previous period.

### **1.1 Presentation currency**

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

### **1.2 Going concern assumption**

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

### **1.3 Expenditure**

Expenditure is recognised on an accrual basis .

### **1.4 Significant judgements and sources of estimation uncertainty**

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

#### **Financial instruments held at amortised cost and at cost**

The municipality assesses its financial instruments for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

#### **Impairment testing**

##### **Financial assets:**

As described in the accounting policy disclosure relating to financial instruments, the municipality considers the detailed impairment criteria as set out in GRAP 104: Financial Instruments. Management of the municipality is satisfied that the impairment of financial assets recorded during the year is appropriate.

#### **Useful lives and impairment of Property, Plant and Equipment (PPE) and Intangible assets with indefinite useful lives:**

As described in the accounting policy disclosure relating to PPE and intangible assets with indefinite useful lives, the municipality depreciates/amortises the aforementioned assets over their estimated useful lives, taking into account the residual values of the assets at the end of their useful lives. The useful lives and residual values of the assets are based on industry knowledge.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable.

#### **Provisions**

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 14 - Provisions.



# **uPHONGOLO Local Municipality**

Annual Financial Statements for the year ended 30 June 2019

## **Accounting Policies**

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### **1.4 Significant judgements and sources of estimation uncertainty (continued)**

#### **Post retirement benefits**

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in the note.

### **1.5 Investment property**

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

#### **Fair value**

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

### **1.6 Property, plant and equipment**

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

# uPHONGOLO Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

### 1.6 Property, plant and equipment (continued)

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Land		Indefinite
Plant and machinery	Straight line	5 years
Furniture and fittings	Straight line	1-5 years
Motor vehicles		
• Specialised	Straight line	5 years
• Other vehicles	Straight line	5 years
Office equipment	Straight line	1-5 years
Infrastructure		
• Roads and paving	Straight line	20 years
• Electricity	Straight line	20-30 years
• Courseway bridges	Straight line	5 years
Community		
• Buildings	Straight line	30 years
• Halls	Straight line	30 years
• Libraries	Straight line	30 years
Finance lease assets		
• machinery and equipment	Straight line	5 years
• Motor vehicles	Straight line	5 years

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

# **uPHONGOLO Local Municipality**

Annual Financial Statements for the year ended 30 June 2019

## **Accounting Policies**

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### **1.6 Property, plant and equipment (continued)**

The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

The municipality assesses at each reporting date whether there is any indication that the municipality expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

### **1.7 Site restoration and dismantling cost**

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which a municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

- (a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- (b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- (c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

### **1.8 Intangible assets**

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

# uPHONGOLO Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.8 Intangible assets (continued)

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Depreciation method	Average useful life
Computer software	Straight line	3 years

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of intangible assets is included in surplus or deficit when the asset is derecognised.

### 1.9 Heritage assets

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

#### Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

#### Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

#### Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

# uPHONGOLO Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.9 Heritage assets (continued)

#### Impairment

The municipality assesses at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

#### Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is included in surplus or deficit when the item is derecognised.

### 1.10 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

A financial asset is:

- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

#### Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Receivables from customers	Financial asset measured at amortised cost
Bank and cash	Financial asset measured at cost
Short term investment deposits	Financial asset measured at amortised cost

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Long term loan	Financial liability measured at amortised cost
Creditors	Financial liability measured at amortised cost

The entity has the following types of residual interests (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

#### Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

# **uPHONGOLO Local Municipality**

Annual Financial Statements for the year ended 30 June 2019

## **Accounting Policies**

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### **1.10 Financial instruments (continued)**

#### **Initial measurement of financial assets and financial liabilities**

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

#### **Subsequent measurement of financial assets and financial liabilities**

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

#### **Fair value measurement considerations**

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

#### **Gains and losses**

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

# **uPHONGOLO Local Municipality**

Annual Financial Statements for the year ended 30 June 2019

## **Accounting Policies**

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### **1.10 Financial instruments (continued)**

#### **Impairment and uncollectibility of financial assets**

The entity assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly or by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

# **uPHONGOLO Local Municipality**

Annual Financial Statements for the year ended 30 June 2019

## **Accounting Policies**

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### **1.10 Financial instruments (continued)**

#### **Derecognition**

##### **Financial assets**

The entity derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continues to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

##### **Financial liabilities**

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).



# **uPHONGOLO Local Municipality**

Annual Financial Statements for the year ended 30 June 2019

## **Accounting Policies**

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### **1.10 Financial instruments (continued)**

#### **Presentation**

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

### **1.11 Tax**

#### **Taxation**

The uPhongolo Local municipality is exempt from tax in terms of section 10(1)(a) of the Income Tax Act.

### **1.12 Leases**

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

#### **Finance leases - lessor**

The municipality recognises finance lease receivables as assets on the statement of financial position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

Finance revenue is recognised based on a pattern reflecting a constant periodic rate of return on the municipality's net investment in the finance lease.

#### **Finance leases - lessee**

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

### **1.13 Impairment of non-cash-generating assets**

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

## **Accounting Policies**

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### **1.13 Impairment of non-cash-generating assets (continued)**

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset excluding finance costs.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:

- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

### **Designation**

Assets are designated as cash-generating or non-cash-generating based on the municipality's objective of using the assets. Assets can either be used with the objective of generating a commercial return or delivering services.

The assessment of a municipality's objective of using the asset is performed at initial recognition, based on management's expected use of the asset over its useful life. Subsequent to initial recognition and designation, a municipality shall redesignate an asset, if there has been a change in a municipality's expected use of the asset that is expected to result in positive cash flows that are significantly higher than the cost of the asset.

### **Identification**

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also tests a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

### **1.14 Employee benefits**

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:

- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

# **uPHONGOLO Local Municipality**

Annual Financial Statements for the year ended 30 June 2019

## **Accounting Policies**

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### **1.14 Employee benefits (continued)**

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

#### **Short-term employee benefits**

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measures the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

#### **Post-employment benefits**

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

# **uPHONGOLO Local Municipality**

Annual Financial Statements for the year ended 30 June 2019

## **Accounting Policies**

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### **1.14 Employee benefits (continued)**

#### **Post-employment benefits: Defined contribution plans**

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the entity during a reporting period, the entity recognise the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

#### **Actuarial assumptions**

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:

- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
  - those changes were enacted before the reporting date; or
  - past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

#### **Retirement Funds:**

The municipality contributes towards retirement benefits of its employees to the following funds:

Natal Joint Municipal Pension Fund;  
Government Employees Pension Fund;  
Municipal Gratuity Fund;  
South African Local Authorities Pension Fund

#### **Post employment medical care benefits:**

The municipality provides post-retirement medical care benefits by subsidising the medical aid contributions to retired employees and their legitimate spouses. The entitlement of post-medical benefits is based on employees remaining in service up to the retirement age and the completion of a minimum service period. The expected cost of these benefits is accrued over the period of employment. Post employment medical care benefits are accounted for in accordance to GRAP 25.

# **uPHONGOLO Local Municipality**

Annual Financial Statements for the year ended 30 June 2019

## **Accounting Policies**

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### **1.15 Provisions and contingencies**

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of an activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 41.

### **1.16 Commitments**

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

Operational commitment represent both goods and services where an order or an appointment letter has been approved and issued to the supplier at the reporting period

### **1.17 Revenue from exchange transactions**

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

# **uPHONGOLO Local Municipality**

Annual Financial Statements for the year ended 30 June 2019

## **Accounting Policies**

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### **1.17 Revenue from exchange transactions (continued)**

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

#### **Measurement**

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

#### **Sale of goods**

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

#### **Rendering of services**

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

#### **Interest**

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

### **1.18 Revenue from non-exchange transactions**

Revenue comprises gross inflows of economic benefits or service potential received and receivable by a municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

# **uPHONGOLO Local Municipality**

Annual Financial Statements for the year ended 30 June 2019

## **Accounting Policies**

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### **1.18 Revenue from non-exchange transactions (continued)**

Control of an asset arises when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, a municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

### **Recognition**

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

### **Measurement**

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

# **uPHONGOLO Local Municipality**

Annual Financial Statements for the year ended 30 June 2019

## **Accounting Policies**

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### **1.18 Revenue from non-exchange transactions (continued)**

#### **Property rates**

The municipality recognises property rates in terms of the Municipal Property Rates Act and the municipal rates policy.

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met. The taxable event for property tax is the passing of the date on which the tax is levied.

#### **Transfers**

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

#### **Government grants**

Grants and donations received, or receivable are recognised when the resources that have been transferred meet the criteria for recognition as an asset and there is not a corresponding liability in respect of the related conditions. Where there are conditions attached to a grant, transfer or donation that gave rise to a liability at initial recognition, the liability is transferred to revenue as and when the conditions attached to the grant are met.

Unconditional grants are recognised as revenue in full when the asset is recognised, at an amount equal to the fair value of the asset received.

#### **Fines**

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

### **1.19 Investment income**

Investment income is recognised on a time-proportion basis using the effective interest method.

### **1.20 Borrowing costs**

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

### **1.21 Unauthorised expenditure**

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No.56 of 2003)

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### **1.22 Fruitless and wasteful expenditure**

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.



# **uPHONGOLO Local Municipality**

Annual Financial Statements for the year ended 30 June 2019

## **Accounting Policies**

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### **1.22 Fruitless and wasteful expenditure (continued)**

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### **1.23 Irregular expenditure**

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

### **1.24 Budget information**

The approved budget is prepared on a accrual basis and presented by functional classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2018/07/01 to 2019/06/30.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

### **1.25 Related parties**

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties that are not at arm's length or not in the ordinary course of business are disclosed.

## **uPHONGOLO Local Municipality**

Annual Financial Statements for the year ended 30 June 2019

### **Accounting Policies**

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#### **1.26 Events after reporting date**

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

#### **1.27 Value Added Tax (VAT)**

The municipality accounts for VAT on the accrual basis. The municipality is liable to account for VAT at the standard rate (15%) in terms of section 7(1)(a) of the VAT Act in respect of the supply of goods or services, except where the supplies are specifically zero-rated in terms of section 11, exempted in terms of section 12 of the VAT Act or are scoped out for VAT purposes. The municipality accounts for VAT on a monthly basis.

## uPHONGOLO Local Municipality

Annual Financial Statements for the year ended 30 June 2019

### Notes to the Annual Financial Statements

Figures in Rand

2019

2018

#### 2. Investment property

	2019			2018		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	101 336 000	-	101 336 000	90 295 000	-	90 295 000

#### Reconciliation of investment property - 2019

	Opening balance	Disposals	Fair value adjustments	Total
Investment property	90 295 000	(290 000)	11 331 000	101 336 000

#### Reconciliation of investment property - 2018

	Opening balance	Prior year adjustment	Fair value adjustments	Total
Investment property	79 630 000	3 785 000	6 880 000	90 295 000

#### Pledged as security

No investment properties were pledged as security:

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

#### Details of valuation

The effective date of the revaluations was Sunday, 30 June 2019. Revaluations were performed by an independent valuer, Mr R M Fitchet [FIVSA MRICS] and WF Hamilton, of BPG Mass Appraisals (pty) Ltd. BPG Mass Appraisals (pty) LTD are not connected to the municipality and have recent experience in location and category of the investment property being valued.

The valuation was based on open market value for existing use.

These assumptions are based on current market conditions.

**uPHONGOLO Local Municipality**  
Annual Financial Statements for the year ended 30 June 2019

**Notes to the Annual Financial Statements**

Figures in Rand

**3. Property, plant and equipment**

	2019			2018		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	64 602 265	-	64 602 265	64 602 265	-	64 602 265
Buildings	56 300 305	(21 440 059)	34 860 246	56 300 311	(20 019 349)	36 280 962
Landfill site	5 505 095	-	5 505 095	5 505 095	-	5 505 095
Infrastructure	173 077 312	(50 613 244)	122 464 068	174 305 459	(44 059 290)	130 246 169
Other property, plant and equipment	38 033 890	(17 991 996)	20 041 894	30 646 631	(14 818 704)	15 827 927
AUC-Roads & Stormwater	18 345 089	-	18 345 089	16 938 806	-	16 938 806
AUC-Buildings	42 125 903	-	42 125 903	26 654 453	-	26 654 453
AUC-Electricity	65 053 275	-	65 053 275	65 053 275	-	65 053 275
<b>Total</b>	<b>463 043 134</b>	<b>(90 045 299)</b>	<b>372 997 835</b>	<b>440 006 295</b>	<b>(78 897 343)</b>	<b>361 108 952</b>

**uPHONGOLO Local Municipality**  
Annual Financial Statements for the year ended 30 June 2019

**Notes to the Annual Financial Statements**

Figures in Rand

**3. Property, plant and equipment (continued)**

**Reconciliation of property, plant and equipment - 2019**

	Opening balance	Additions	Disposals	Depreciation	Impairment loss	Total
Land	64 602 265	-	-	-	-	64 602 265
Buildings	36 280 962	-	-	(1 371 598)	(49 118)	34 860 246
Landfill site	5 505 095	-	-	-	-	5 505 095
Infrastructure	130 246 169	-	(34 240)	(7 747 861)	-	122 464 068
Other property, plant and equipment	15 827 386	8 158 695	-	(3 424 469)	(519 718)	20 041 894
AUC- Roads& storm water	16 938 806	1 406 283	-	-	-	18 345 089
AUC- Buildings	26 654 453	15 471 450	-	-	-	42 125 903
AUC- Electricity	65 053 275	-	-	-	-	65 053 275
	<b>361 108 411</b>	<b>25 036 428</b>	<b>(34 240)</b>	<b>(12 543 928)</b>	<b>(568 836)</b>	<b>372 997 835</b>

**Reconciliation of property, plant and equipment - 2018**

	Opening balance	Additions	Disposals	Transfers received	Prior period error	Depreciation	Impairment loss	Total
Land	64 602 265	-	-	-	-	-	-	64 602 265
Buildings	24 783 706	-	-	26 065 834	(5 017 537)	(1 758 206)	(7 792 835)	36 280 962
Landfill site	5 505 095	-	-	-	-	-	-	5 505 095
Infrastructure	101 473 136	-	(96 589)	39 136 856	-	(8 355 753)	(1 911 481)	130 246 169
Other property, plant and equipment	14 108 226	5 918 148	(1 658 368)	-	1 140 323	(3 534 768)	(146 175)	15 827 386
AUC-Buildings	30 254 334	21 762 791	-	(25 362 671)	-	-	-	26 654 454
AUC-Electricity	65 150 041	7 904 648	-	-	(8 001 414)	-	-	65 053 275
AUC-Roads & Stormwater	45 001 233	11 120 104	-	(39 182 531)	-	-	-	16 938 806
	<b>350 878 036</b>	<b>46 705 691</b>	<b>(1 754 957)</b>	<b>657 488</b>	<b>(11 878 628)</b>	<b>(13 648 727)</b>	<b>(9 850 491)</b>	<b>361 108 412</b>

**Pledged as security**

Carrying value of assets pledged as security:

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### 3. Property, plant and equipment (continued)

#### Reconciliation of Work-in-Progress 2019

	Included within Roads	Included within Buildings	Included within Electricity	Total
Opening balance	16 938 806	26 654 454	65 053 275	108 686 100
Additions/capital expenditure	1 406 283	15 471 450	-	16 877 733
	<b>18 345 089</b>	<b>42 125 904</b>	<b>65 053 275</b>	<b>125 563 833</b>

#### Reconciliation of Work-in-Progress 2018

	Included within Roads	Included within Buildings	Included within Electricity	Total
Opening balance	45 001 233	30 254 334	65 150 041	140 444 858
Additions/capital expenditure	11 120 104	21 762 791	7 904 648	40 787 858
Transferred to completed items	(39 182 531)	(25 362 671)	-	(64 545 202)
correction of prior year error classification	-	-	(8 001 414)	(8 001 414)
	<b>16 938 806</b>	<b>26 654 454</b>	<b>65 053 275</b>	<b>108 686 100</b>

#### Expenditure incurred to repair and maintain property, plant and equipment

#### Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance

Buildings	1 035 110	537 832
Other	851 851	1 474 680
Infrastructure	7 632 583	2 186 555
	<b>9 519 544</b>	<b>4 199 067</b>

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

### 4. Intangible assets

	2019			2018		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	1 041 704	(588 627)	453 077	1 041 704	(442 923)	598 781

#### Reconciliation of intangible assets - 2019

	Opening balance	Amortisation	Impairment loss	Total
Computer software	598 780	(103 444)	(42 261)	453 075

#### Reconciliation of intangible assets - 2018

	Opening balance	Additions	Amortisation	Total
Computer software	262 013	416 336	(79 569)	598 780

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**5. Heritage assets**

	2019			2018		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Paintings and Artifacts	70 945	-	70 945	70 945	-	70 945

**Reconciliation of heritage assets 2019**

	Opening balance	Total
Paintings and artifacts	70 945	70 945

**Reconciliation of heritage assets 2018**

	Opening balance	Total
Paintings and artifacts	70 945	70 945

**Pledged as security**

No heritage assets pledged as security:

**6. Employee benefit obligation**

**Defined benefit plan**

Medical Benefits:

An actuarial valuation has been performed by One Pangaea Expertise and Solutions to ascertain the municipality's liability in respect of the benefits to eligible employees.

The actuarial valuation is performed every two years.

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#### 6. Employee benefit obligation (continued)

The amounts recognised in the statement of financial position are as follows:

<b>Carrying value</b>		
Opening balance	(3 187 920)	(3 115 367)
Interest costs	(236 454)	(289 798)
Benefits paid	219 651	237 178
Actuarial gain/(loss)	1 084 339	(19 933)
	<b>(2 120 384)</b>	<b>(3 187 920)</b>

#### Net expense recognised in the statement of financial performance

Interest cost	(236 454)	(289 798)
Actuarial gains (losses)	1 084 339	(19 933)
	<b>847 885</b>	<b>(309 731)</b>

#### Key assumptions used

Assumptions used at the reporting date:

Discount rates used	10,68 %	9,30 %
Salary inflation	7,73 %	8,30 %
% increase in medical inflation	8,47 %	12,00 %
% decrease in medical inflation	7,47 %	(10,10)%
% increase in discount rate	6,84 %	12,40 %
% decrease in discount rate	7,84 %	(10,30)%
Mortality less 2 years	8,84 %	9,40 %



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### 6. Employee benefit obligation (continued)

#### Other assumptions

The municipality has been unsuccessful in obtaining the necessary information to support proper defined benefit plan accounting due to restrictions imposed by the multi-employer plan. As a result of the restrictions, some of the entities defined benefit plans have not been treated as defined benefit plans as defined by GRAP 25, but are rather accounted for as defined contribution plans. This is in line with the GRAP 25 exemption which states that where information required for proper defined benefit plan accounting is not available in respect of multi employer and state plans, these should be accounted for as defined contributions plan.

#### Pension benefits

The Municipality's personnel are members of one of the pension funds listed below:

Kwa-Zulu Natal Joint Municipal Pension Fund,  
-Municipal Gratuity Fund,  
-Municipal Employees Pension Fund,  
-Government Employees Pension Fun

-

As the aforementioned funds are multi-employer funds, the allocation of any surplus/deficit to individual municipalities cannot be determined. Furthermore, disclosure of further details such as actuarial assumptions cannot be attributed to any specific municipality and is of no relevance to users of the municipality's financial statements. As the required disclosure information cannot be obtained, the funds are all treated as defined contribution plans. an independent valuer carries out a statutory valuation of the NJMPF on a triennial basis and an interim valuation on an annual basis. The 2019 actuarial valuations have not been released.

Superannuation Fund: The interim valuation carried out on the Superannuation Fund as at March 2016 reflected the following:

-The memorandum account in respect of the pensioners was fully funded  
-The ability in respect of active members was 100% funded

Retirement and Provident Fund: The latest statutory valuation on the Retirement/Provident Fund (defined contribution) as at 31 March 2017 revealed the following: -The memorandum account in respect of the pensioners was fully funded

-The ability in respect of active members was 100% funded

#### Principal actuarial assumptions:

#### Sensitivities

1% increase in discount rate

- Defined benefit obligation

739 244

842 180

- Percentage

-11.72%

-12.2%

1% decrease in discount rate

- Defined benefit obligation

1 260 351

1 099 656

- Percentage

14.02%

14.6%

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### 6. Employee benefit obligation (continued)

1% decrease in salary  
inflation

- Defined benefit obligation 1 260 351 844 068

- Percentage -11.52% -12.0%

1% increase in salary  
inflation

- Defined benefit obligation 1 421 659 1 094 615

- Percentage 13.52% 14.1%

	2019 R	2018 R	2017 R	2016 R	2015 R
Present value of funded obligations	2 120 384	3 187 919	3 115 366	3 025 320	-
Total	2 120 384	3 187 919	3 115 366	3 025 320	-

### 7. Prepayments

Prepayments	7 113	8 413
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### 8. Receivables from non-exchange transactions

Traffic fines	5 760 776	3 832 626
Property rates	79 281 641	67 188 186
Impairment	(9 882 995)	(4 621 311)
	<b>75 159 422</b>	<b>66 399 501</b>

#### Property rates: Ageing

Current(0-30 days)	3 189 722	3 104 748
31-60 days	2 010 777	2 162 496
61-90 days	1 494 499	1 678 602
91-120 days	1 405 358	1 728 937
121-365 days	9 044 657	7 690 761
+365 days	62 136 628	50 822 642
	<b>79 281 641</b>	<b>67 188 186</b>

#### Traffic Fines: Ageing

Current(0-30 days)	207 800	115 950
31-60 days	299 950	70 400
61-90 days	232 000	82 400
91-120 days	161 050	143 800
121-365 days	1 080 600	134 800
+365 days	3 779 376	3 285 276
	<b>5 760 776</b>	<b>3 832 626</b>

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### 8. Receivables from non-exchange transactions (continued)

#### Reconciliation of provision for impairment of receivables from non-exchange transactions

Opening balance	(4 621 311)	(3 498 555)
Traffic fines	(5 261 683)	(361 372)
Property rates	-	(761 384)
	<b>(9 882 994)</b>	<b>(4 621 311)</b>

### 9. VAT receivable

VAT refundable	1 638 101	1 563 752
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The municipality accounts for VAT on the accrual basis. The municipality is liable to account for VAT at the standard rate of 15% (14% - 2018) in terms of section 7(1)(a) of the VAT Act in respect of the supply of goods or services, except where the supplies are specifically zero rated in terms of section 11, exempted in terms of section 12 of the VAT Act or are scoped out for VAT purposes. The municipality accounts for VAT on a monthly basis.

### 10. Receivables from exchange transactions

#### Gross balances

Electricity	8 198 631	7 776 343
Refuse	93 423 487	81 316 319
Other	2 835 895	2 369 799
	<b>104 458 013</b>	<b>91 462 461</b>

#### Less: Allowance for impairment

Electricity	(2 233 126)	(1 567 482)
Refuse	(91 182 098)	(78 268 039)
Other	(2 221 108)	(1 948 001)
	<b>(95 636 332)</b>	<b>(81 783 522)</b>

#### Net balance

Electricity	5 965 505	6 208 861
Refuse	2 241 389	3 048 280
Other	614 787	421 798
	<b>8 821 681</b>	<b>9 678 939</b>

#### Electricity

Current (0 -30 days)	4 840 871	5 011 746
31 - 60 days	915 463	702 498
61 - 90 days	189 195	111 386
91 - 120 days	112 363	81 244
121 - 365 days	448 571	388 076
> 365 days	1 692 168	1 481 393
	<b>8 198 631</b>	<b>7 776 343</b>

#### Refuse

Current (0 -30 days)	1 076 393	992 618
31 - 60 days	920 949	815 764
61 - 90 days	779 328	728 610
91 - 120 days	742 498	717 414
121 - 365 days	6 249 152	5 731 970
> 365 days	83 655 167	72 329 943
	<b>93 423 487</b>	<b>81 316 319</b>

# uPHONGOLO Local Municipality

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### 10. Receivables from exchange transactions (continued)

#### Other (specify)

Current (0 -30 days)	54 437	6 267
31 - 60 days	27 450	3 335
61 - 90 days	25 963	1 263
91 - 120 days	25 509	1 054
121 - 365 days	320 145	7 892
> 365 days	2 382 391	2 349 988
	<b>2 835 895</b>	<b>2 369 799</b>

#### Reconciliation of allowance for impairment

Balance at beginning of the year	(81 783 522)	(74 061 717)
Contributions to allowance	(13 852 811)	(7 721 805)
	<b>(95 636 333)</b>	<b>(81 783 522)</b>

### 11. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	2 327	1 674
Bank balances	7 097 006	390 243
Short-term deposits	67 253	58 553
	<b>7 166 586</b>	<b>450 470</b>

The municipality holds a facility account relating to the use of fleet services with a value of R 500 000 and a vehicle asset finance (LCF) of R 11 200 000.

#### The municipality had the following bank accounts

Account number / description	Bank statement balances		Cash book balances	
	30 June 2019	30 June 2018	30 June 2019	30 June 2018
FNB - 62027530858 (Primary bank account)	7 097 007	390 244	7 097 007	390 244
FNB - 62375342377	94	-	94	-
FNB - 62377992104	182	-	182	-
FNB - 62389585286	895	-	895	-
FNB - 62389586507	7 689	7 458	7 689	7 458
FNB - 62404561377	87	-	87	-
FNB - 62404287345	1 311	-	1 311	-
FNB - 62658357001	5 025	4 872	5 025	4 872
FNB - 62305239718	158	-	158	-
FNB - 74275780911	47 417	44 871	47 417	44 871
FNB - 62596797559	4	4	4	4
FNB - 62253771896	3 022	-	3 022	-
FNB - 62230436405	22	-	22	-
STD - 068686234003	1 347	1 347	1 347	1 347
Cash on hand	2 327	1 674	2 327	1 674
<b>Total</b>	<b>7 166 587</b>	<b>450 470</b>	<b>7 166 587</b>	<b>450 470</b>

## uPHONGOLO Local Municipality

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#### 12. Finance lease obligation

Non-current liabilities	3 778 321	783 484
Current liabilities	2 783 898	516 907
	6 562 219	1 300 391
less: future finance charges	(1 148 827)	(403 076)
	<b>5 413 392</b>	<b>897 315</b>

#### Present value of minimum lease payments due

- within one year	2 049 416	298 586
- in second to fifth year inclusive	3 363 976	598 729
	<b>5 413 392</b>	<b>897 315</b>

#### 13. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

##### Unspent conditional grants and receipts

Municipal infrastructure grant	5 953 502	-
Pound Grant	1 000 000	1 000 000
Sub-Rank Facility Grant	3 417	3 417
Small Town Improvement Grant	7 458	7 458
Single land use scheme	3 500	-
Title deeds Ncotshane	89 511	-
	<b>7 057 388</b>	<b>1 010 875</b>

## uPHONGOLO Local Municipality

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#### 14. Provisions

##### Reconciliation of provisions - 2019

	Opening Balance	Additions	Utilised during the year	Total
Non current:Environmental rehabilitation	6 569 124	433 562	-	7 002 686
Current: Bonuses	118 717	85 000	(118 717)	85 000
	<b>6 687 841</b>	<b>518 562</b>	<b>(118 717)</b>	<b>7 087 686</b>

##### Reconciliation of provisions - 2018

	Opening Balance	Change in discount factor	Utilised during year	Total
Non current:Environmental rehabilitation	6 232 296	336 828	-	6 569 124
Current: Bonuses	344 043	-	(225 326)	118 717
	<b>6 576 339</b>	<b>336 828</b>	<b>(225 326)</b>	<b>6 687 841</b>

Non-current liabilities	7 002 686	6 569 124
Current liabilities	85 000	118 717
	<b>7 087 686</b>	<b>6 687 841</b>

##### Current provisions

Bonus	85 000	118 717
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**Bonus provision:** The provision is to provide for performance bonuses of the section 54 & 56 employees. Performance bonuses are paid one year in arrears as the assessment of eligible employees takes place after year end.

##### Non-current provisions

Rehabilitation of landfill site	7 002 686	6 569 124
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**Landfill site:** The rehabilitation of landfill sites relates to the legal obligation to rehabilitate landfill sites used for waste disposal at the time of closure. The value of the provision is based on the present value of the expected future costs to rehabilitate the site.

Rehabilitation costs were calculated based on the following assumptions:

##### Assumptions

	Percentage- 2019	Percentage- 2018
Annual inflation	6,60 %	6,60 %
Discount rate	6,60 %	6,60 %
	<b>- %</b>	<b>- %</b>

# uPHONGOLO Local Municipality

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### 14. Provisions (continued)

The landfill site is 5 hectares and the area expected to be rehabilitated is 3 hectares. The estimated closure date is 2035/36.

The municipality has an obligation to rehabilitate the landfill site at the end of the usage period of 17 years. The landfill site rehabilitation provision is created for the rehabilitation of the current operational site at the future estimated time of closure. The value of the provision is based on the expected future cost to rehabilitate the site discounted back to the reporting date at the cost of capital, which is 6.6%. The cost of such property includes the initial estimate of the costs of rehabilitating the land and restoring the site on which it is located, the obligation for which a municipality incurs as a consequence of having used the property during a particular period for landfill purposes. The municipality estimates the useful life and makes assumptions as to the useful life of the assets, which influence the provision for future costs

### 15. Long-service awards

Employees who achieve 20 years service have a choice of 20 days paid leave (once off) or encashment of leave.  
Employees who achieve 30 years service have a choice of 30 days paid leave (once off) or encashment of leave.  
Employees who achieve 35 years service have a choice of 50 days paid leave (once off) or encashment of leave.

The abovementioned leave is granted in addition to the annual leave entitlement and maximum accumulation granted in terms of the National Conditions of Service. The leave may be taken, converted to cash fully or partially or accumulated. The leave is only applicable to those employees who have achieved the stated years of service after the effective date of these conditions.

The provision is an estimate of the long service award based on the monthly salaries rate as at 30 June 2019. It has been assumed that the staff turnover rate will be insignificant based on historical data. The provision has not been discounted based on the fact that the interest cost is insignificant and the fair presentation of the provision is not materially affected.

The valuation of the liability was performed in line with GRAP 25: Employee benefits by One Pangaea Expertise and Solutions as at 30 June 2019 and included projections for 2020.

The actuarial valuation is performed every two years

#### Changes in the present value of the long-service obligation are as follows:

Opening balance	(1 127 068)	(959 449)
Service cost	(131 568)	(116 961)
Interest cost	(115 509)	(87 063)
Actuarial gains and (losses)	(44 910)	(113 960)
Benefits paid	125 054	150 365
	<b>(1 294 001)</b>	<b>(1 127 068)</b>

#### Net expense recognised in the statement of financial performance

Service cost	(131 568)	(116 961)
Interest cost	(115 509)	(87 063)
Actuarial gain/(loss)	(44 910)	(113 960)
	<b>(291 987)</b>	<b>(317 984)</b>

#### Principal actuarial assumptions used

Discount rate	10	9
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# uPHONGOLO Local Municipality

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### 15. Long-service awards (continued)

#### Principal actuarial assumptions used:

	Percentage- 2019	Percentage- 2018
Discount rate	10,35 %	9,30 %
Salary inflation rate	7,73 %	8,30 %
% decrease in discount rate	(12,20)%	(12,20)%
% increase in discount rate	14,60 %	14,60 %
% decrease in salary inflation	(12,00)%	(12,00)%
% increase in salary inflation	14,10 %	14,10 %
	- %	- %

### 16. Long term loans

Non - Current liabilities	2 804 638	4 312 039
Current liabilities	3 850 735	3 581 239
	<b>6 655 373</b>	<b>7 893 278</b>

#### Standard Bank:

The municipality has a loan with Standard Bank for the purchase of property, plant and equipment. The loan bears interest at an average effective borrowing rate of 9.75% per annum. The loan is repayable on a monthly basis with final payment due on 30 April 2019.

#### Fleet Horizon Solutions:

The municipality has a loan with Fleet Horizon for the purchase of property, plant and equipment. The loan bears interest at an average effective borrowing rate of 15.5% per annum. The loan is repayable on a monthly basis with final payment due on 30 April 2021.

#### Wesbank:

The municipality has a loans with WesBank for the purchase of property, plant and equipment. The loans bears interest at an average effective borrowing rate of 9.59% per annum. Loans are repayable on a monthly basis with final payment due on 01 October 2021 and 01 September 2021.

Property plant and equipment with a combined carrying value of R 6 843 677,14 and monthly repayments (R320 653.4) have been pledged as security.

### 17. Payables from exchange transactions

Trade payables	38 239 243	15 270 797
Retentions	4 978 088	4 475 144
Staff leave accrual	6 192 152	5 224 868
Accrued bonus	2 299 679	2 136 299
Payroll deductions	378 288	378 288
Deposits-Other	677 033	692 739
Debtors with credit balance	664 671	138 283
	<b>53 429 154</b>	<b>28 316 418</b>

### 18. Consumer deposits

Electricity	2 085 697	2 149 309
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# uPHONGOLO Local Municipality

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<b>19. Service charges</b>		
Sale of electricity	39 325 985	37 473 261
Refuse removal	10 622 446	10 085 261
	<b>49 948 431</b>	<b>47 558 522</b>
<b>20. Rental of facilities and equipment</b>		
<b>Facilities and equipment</b>		
Rental of facilities	595 149	962 871
<b>21. Fines, Penalties and Forfeits</b>		
Traffic Fines	1 981 400	1 390 770
<b>22. Licences and permits (exchange)</b>		
Licences and permits	1 476 333	1 369 765
<b>23. Impairment loss/reversal</b>		
<b>Impairments</b>		
Property plant and equipment	611 363	9 850 491
<b>24. Interest received - trading</b>		
Interest Receivables	10 906 497	8 766 038
<b>25. Other income</b>		
NPA fees	903 644	787 764
Electricity connection and reconnection fees	12 901	8 718
Building plans	18 542	20 115
Burial fees	98 083	99 690
Transport subsidy	-	285 285
Sign boards	71 770	65 396
Tender document fees	360 614	74 815
Certificate clearance and validation	27 528	14 206
Dumping fees	4 621	7 667
Other	847 311	1 252 989
	<b>2 345 014</b>	<b>2 616 645</b>
<b>26. Interest received - investment</b>		
<b>Interest revenue</b>		
Current account	776 246	225 277
External Investments	744 124	1 132 174
	<b>1 520 370</b>	<b>1 357 451</b>

## uPHONGOLO Local Municipality

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#### 27. Property rates

##### Rates

Residential	8 535 169	7 547 920
Commercial	9 581 514	8 858 557
State	8 633 441	9 637 553
Other	10 800 956	2 622 443
	<b>37 551 080</b>	<b>28 666 473</b>

##### Valuations

Residential	692 089 000	739 553 000
Commercial	484 250 000	492 670 000
State	799 291 000	507 842 000
Municipal	85 531 000	109 919 000
Other	1 425 304 600	1 663 031 600
	<b>3 486 465 600</b>	<b>3 513 015 600</b>

Valuations on land and buildings are performed every five years. The last general valuation came into effect on 1 July 2014

Rebates of R60 000 are granted to residential and 30% state property owners. Rates are levied on a monthly basis on property owners.

Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

# uPHONGOLO Local Municipality

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### 28. Government grants and subsidies

#### Operating grants

Equitable share	119 730 000	107 145 949
Expanded Public Works Programme Grant	2 534 000	4 678 000
Financial Management Grant	1 970 000	1 900 000
Provincialisation of Libraries Grant	1 676 000	1 002 000
Community Libraries Services Grant	394 000	376 000
Municipal Infrastructure Grant	1 389 700	4 064 168
Sports Facility Grant	-	167 000
Single Land Use Scheme	496 500	-
	<b>128 190 200</b>	<b>119 333 117</b>

#### Capital grants

Municipal Infrastructure Grant	20 450 798	29 676 832
Integrated National Electrification Programme Grant	-	9 001 494
Imbube Cultural Village Grant	-	4 500 000
Prior year adjustment	-	(14 501 497)
	<b>20 450 798</b>	<b>28 676 829</b>
	<b>148 640 998</b>	<b>148 009 946</b>

#### Equitable Share

Current receipts	119 730 000	107 145 949
------------------	-------------	-------------

#### Financial Management Grant

Current-year receipts	1 970 000	1 900 000
Conditions met - transferred to revenue	(1 970 000)	(1 900 000)
	-	-

Conditions have been met (see note 13).

The purpose of this grant is to promote and support reforms in financial management by building capacity to implement the Municipal Finance Management Act (MFMA). The conditions of the grant were met and no funds have been withheld..

#### Municipal Infrastructure Grant

Current-year receipts	27 794 000	33 741 000
Conditions met - transferred to revenue	(21 840 498)	(33 741 000)
	<b>5 953 502</b>	<b>-</b>

Conditions have been met (see note 13).

This grant is used to construct basic municipal infrastructure to provide basic services for the benefit of poor households. Other than the unspent amount, the conditions of the grant were met.

#### Housing Grant

Current-year receipts	6 158 993	-
Other adjustment	(6 158 993)	-
	-	-

Conditions have been met. (see note 13).

This grant relates to the implementation of Nkosentsha rural housing project

# **uPHONGOLO Local Municipality**

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### **28. Government grants and subsidies (continued)**

#### **Integrated National Electrification Programme Grant**

Balance unspent at beginning of year	-	1 494
Current-year receipts	8 500 000	9 000 000
Other adjustment	(8 500 000)	(9 001 494)
	-	-

Conditions still to be met - remain liabilities (see note 13).

The purpose of this grant is to address the electrification backlog of permanently occupied residential dwellings, the installation of bulk infrastructure and rehabilitation of electricity infrastructure in order to improve quality of supply. In the previous years the council approved the funding of this programmed partially from own resources in order to expedite the eradication of electrification backlog. This amount is not recoverable from the Department of Energy, hence the adjustment processed..

#### **Pound Grant**

Balance unspent at beginning of year	1 000 000	1 000 000
Current-year receipts	-	(1)
Other	-	1
	1 000 000	1 000 000

Conditions still to be met - remain liabilities (see note 13).

This grant was provided in order to construct a pound in the uPhongolo Municipal area. COGTA issued a letter requesting the municipality to transfer to R 1 000 000 to Imbube cultural village Grant, in the 2018/19 COGTA issued another letter requesting the R1 000 0000 back.

#### **Sub-rank Facility Grant**

Balance unspent at beginning of year	3 417	3 417
Current-year receipts	-	(1)
Other	-	1
	3 417	3 417

Conditions still to be met - remain liabilities (see note 13).

The purpose of the grant is to construct the sub-rank facility in uPhongolo town. COGTA approved the rollover of unspent funds amounting to R3 417.

#### **Imbube Cultural Village Grant**

Balance unspent at beginning of year	-	(1)
Current-year receipts	-	4 500 000
Transfer from Pound Grant	-	1
Other adjustment	-	(4 500 000)
	-	-

Conditions have been met. (see note 13).

This grant is for the construction of the Imbube Cultural Village to take advantage of the Route 66 as part of investment strategy to boost tourism in uPhongolo. The conditions of the grant were met and no funds were withheld.

#### **Small Town Improvement Grant**

Balance unspent at beginning of year	7 458	7 458
--------------------------------------	-------	-------

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#### 28. Government grants and subsidies (continued)

Current-year receipts

Other

- (1)  
-

**7 458 7 458**

Conditions still to be met - remain liabilities (see note 13).

The purpose of this grant was to install street lights and high masts in uPhongolo Town. Other than the unspent amount, the conditions of the grant were met.

#### Sports Facility Grant

Balance unspent at beginning of year

Current-year receipts

Conditions met - transferred to revenue

Other

- 167 000  
- (1)  
- (167 000)  
-

**- -**

#### Provincialisation of Libraries Grant

Balance unspent at beginning of year

Current-year receipts

Conditions met - transferred to revenue

Other

- (1)  
1 676 000 1 002 000  
(1 676 000) (1 002 000)  
-

**- -**

Conditions have been met. (see note 13).

The purpose of this grant is to subsidise operational costs associated with libraries. The conditions of the grant were met and no funds were withheld.

#### Community Library Services grant

Balance unspent at beginning of year

Current-year receipts

Conditions met - transferred to revenue

Other

- (1)  
394 000 376 000  
(394 000) (376 000)  
-

**- -**

Conditions have been met. (see note 13).

This grant is used to pay the salary of the library Cyber Cadet and subsidise operational costs associated with Libraries. The conditions of the grant were met and no funds were withheld.

#### Expanded Public Works Programme Grant

Balance unspent at beginning of year

Current-year receipts

Conditions met - transferred to revenue

Other

- (1)  
2 534 000 4 678 000  
(2 534 000) (4 678 000)  
-

**- -**

Conditions have been met (see note 13).

The Expanded Public Works Programme is a special performance-based incentive provided to municipalities that contribute to the employment creation efforts of the expanded public works programme through the employment of previously unemployed people. The condition of the grant was met and no funds have been withheld.

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<b>28. Government grants and subsidies (continued)</b>		
<b>Single Land Use Scheme</b>		
Balance unspent at beginning of year	-	(1)
Current-year receipts	500 000	-
Conditions met - transferred to revenue	(496 500)	-
Other	-	1
	<b>3 500</b>	<b>-</b>
Conditions still to be met - remain liabilities (see note 13).		
This grant relate to implementation of Spluma.		
<b>Title Deeds Ncotshane</b>		
Balance unspent at beginning of year	-	(1)
Current-year receipts	89 511	-
Other	-	1
<b>Closing balance</b>	<b>89 511</b>	<b>-</b>

Conditions still to be met - remain liabilities (see note 13).

This grant is going to be used for transferring tittle deeds to the community of uPhongolo.

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**29. Employee related costs**

Salaries and wages	53 859 050	51 422 554
Performance and other bonuses	4 095 659	3 745 616
Medical aid - company contributions	2 652 903	2 392 290
UIF - company contributions	425 849	427 620
Workmens Compensation Assurance	414 195	351 737
Skills Development Levy	698 568	666 289
Standby allowance	1 233 489	505 729
Leave payout	1 510 829	335 632
Remote allowance	142 310	172 650
Group Life Insurance - company contributions	51 065	45 032
Pension and Provident Fund	6 580 831	5 954 883
Car allowances	6 807 650	3 715 625
Overtime payments	3 698 020	2 894 591
Long-service awards	131 568	116 961
Acting allowances	406 452	1 242 564
Cellphone allowance	242 001	197 316
Housing benefits and allowances	358 771	255 989
Industrial Council	26 889	25 666
	<b>83 336 099</b>	<b>74 468 744</b>

**Remuneration of Municipal Manager**

Annual Remuneration	988 264	779 390
Allowances	345 531	657 063
Contributions to UIF, Medical and Pension Funds	12 465	20 385
	<b>1 346 260</b>	<b>1 456 838</b>

**Remuneration of Chief Finance Officer**

Annual Remuneration	811 416	640 392
Allowances	373 257	557 133
Performance Bonuses	-	30 501
Contributions to UIF, Medical and Pension Funds	11 746	125 971
	<b>1 196 419</b>	<b>1 353 997</b>

**Remuneration of Technical Services Director**

Annual Remuneration	811 416	361 925
Allowances	373 257	273 890
Contributions to UIF, Medical and Pension Funds	11 674	6 871
	<b>1 196 347</b>	<b>642 686</b>

**Remuneration of Community Services Director**

Annual Remuneration	811 416	799 325
Allowances	332 457	382 438
Contributions to UIF, Medical and Pension Funds	10 687	25 836
	<b>1 154 560</b>	<b>1 207 599</b>

**Remuneration of Corporate Services Director**

Annual Remuneration	135 236	632 966
Allowances	62 209	184 824
Contributions to UIF, Medical and Pension Funds	1 880	45 660

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	2019	2018
<b>29. Employee related costs (continued)</b>		
	<b>199 325</b>	<b>863 450</b>
<b>30. Remuneration of councillors</b>		
Mayor	511 249	493 181
Deputy Mayor	417 948	403 507
Executive Committee Members	1 183 796	1 143 175
Speaker	417 946	403 516
Councillors	7 185 800	6 928 089
	<b>9 716 739</b>	<b>9 371 468</b>
<b>In-kind benefits</b>		
The Mayor, Deputy Mayor, Speaker and Executive Committee Members are not full-time. The Mayor, Speaker and Deputy Mayor are provided with an office and secretarial support at the cost of the Council.		
The Mayor, Deputy Mayor and speaker each have the use of separate Council owned vehicles for official duties.		
The Mayor, Deputy Mayor and speaker each have three full-time bodyguards.		
Other two councillors have one full-time bodyguard per councillor.		
The municipality has 29 part time councillors, 1 of the part time councillors is the chairperson of a section 79 committee.		
<b>31. Depreciation and amortisation</b>		
Property, plant and equipment	12 543 928	13 569 158
Intangible assets	103 713	79 569
	<b>12 647 641</b>	<b>13 648 727</b>
<b>32. Finance costs</b>		
Borrowings	1 162 184	448 570
Suppliers	267 227	588 696
Landfill site interest	433 562	336 828
Actuarial interest cost	351 963	376 861
	<b>2 214 936</b>	<b>1 750 955</b>
<b>33. Debt impairment</b>		
Debt impairment	19 114 494	11 723 859
<b>34. Bulk purchases</b>		
Electricity - Eskom	27 756 027	25 375 565
<b>35. Contracted services</b>		
Security services	23 432 543	30 093 204



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	2019	2018
<b>36. General expenses</b>		
Advertising		
Auditors remuneration	1 493 562	1 005 548
Bank charges	1 565 680	1 564 070
Cleaning	279 734	172 219
Audit committee fees	139 596	99 037
Consulting and professional fees	49 157	192 069
Legal expenses	3 272 379	2 854 057
Electricity and refuse	1 320 886	1 037 930
Expanded Public Works Programme	1 035 155	430 972
Insurance	326 796	2 498 702
Licence fees	980 161	1 206 274
Fuel and oil	200 364	308 864
Postage and courier	2 052 235	1 605 080
Printing and stationery	5 026	61 587
Public participation	627 092	720 785
Refreshments	4 349 099	3 532 271
Repairs and maintenance	73 355	23 706
Rental of office equipment	8 913 666	4 254 494
Security- cash banking	403 454	1 012 721
Subscriptions and membership fees	-	74 300
Telephone and fax	940 108	296 020
Transport	1 302 870	1 449 877
Training	22 666	83 197
Travel and subsistence	1 905 907	1 928 393
Uniforms and overalls	5 835 907	9 009 455
Ward upliftment and LED projects	1 454 391	486 968
Water and sanitation	2 806 720	2 403 833
Hire of equipment	641 011	665 510
Other expenses	36 371 676	874 759
	5 275 388	5 153 707
	<b>83 644 041</b>	<b>45 006 405</b>
<b>37. Fair value adjustments</b>		
Investment property (Fair value model)	11 331 000	6 880 000
<b>38. Auditors' remuneration</b>		
Fees	1 565 680	1 564 070

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	2019	2018
<b>39. Cash generated from operations</b>		
Surplus		
<b>Adjustments for:</b>	3 922 601	24 337 695
Depreciation and amortisation		
Gain on sale of assets and liabilities	12 647 641	13 648 727
Acturial loss/ gain	622 842	1 754 958
Fair value adjustments	(1 039 430)	94 026
Interest income	(11 331 000)	(6 880 000)
Finance costs	(1 520 370)	(1 357 451)
Impairment deficit	2 214 936	1 750 955
Debt impairment	611 363	9 850 491
Movement in long service award	19 114 494	11 723 859
Movements in retirement benefit assets and liabilities	166 933	167 619
Movements in provisions	(1 067 536)	72 553
<b>Changes in working capital:</b>	399 845	111 502
Receivables from exchange transactions	857 258	1 848 444
Receivables from non-exchange transactions	(8 759 921)	(9 854 279)
Prepayments	1 300	40 848
Payables from exchange transactions	25 112 736	(9 183 582)
VAT	(74 349)	19 137
Unspent conditional grants and receipts	6 046 513	(168 494)
Consumer deposits	(63 612)	(358 509)
	<b>47 862 244</b>	<b>37 618 499</b>

# uPHONGOLO Local Municipality

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### 40. Commitments

#### Authorised capital expenditure

##### Approved and contracted for

- Property, plant and equipment

83 490 959 79 138 280

##### Not yet contracted for and authorised by accounting officer

- Property, plant and equipment

8 344 164 -

#### Total capital commitments

Approved and contracted for

83 490 959 79 138 280

Not yet contracted for and authorised by accounting officer

8 344 164 -

**91 835 123 79 138 280**

#### Authorised operational expenditure

##### Approved and contracted for

- Operating commitments

33 916 015 9 279 952

#### Total operational commitments

Approved and contracted for

33 916 015 9 279 952

#### Total commitments

##### Total commitments

Authorised capital expenditure

Authorised operational expenditure

91 835 123 79 138 280

33 916 015 9 279 952

**125 751 138 88 418 232**

The committed expenditure has been disclosed exclusive of VAT. This committed capital expenditure relates to property, plant and equipment as well as operating expenditure will be financed by government grants.

### 41. Contingencies

#### Contingent liabilities

##### Trust and Trustees

Enforcement of sale agreement concluded with the municipality

PON141

22 654 755 22 654 755

Disconnect error

PON149

55 369 55 369

Tax Bill

58 351 58 351

**22 768 475 22 768 475**

#### Contingent assets

##### Elam Investments

Payment made for accommodation during SALGA games

164 480 164 480

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### 42. Related parties

#### Relationships

Key Management personnel

Councillors

Senior managers

Refer to Remuneration of councillors note

Refer to Employee related costs note

There were no related party transactions that were not at arms length during the financial period.

### 43. Prior period error

Certain comparative figures have been restated due to errors identified in the current year.

The effects of the restatement are as follows:

#### Vat receivable

Audited Balance

Correction of error- Reversal of input VAT

- 3 051 871

- (1 488 119)

- **1 563 752**

#### Finance lease liability

Correction of error- Recognition of lease liability

- (897 315)

# uPHONGOLO Local Municipality

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## Notes to the Annual Financial Statements

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### 43. Prior period error (continued)

#### Receivables from exchange transactions

Audited Balance

Correction of error: Reversal because of system error occurred in the prior years

Correction of error

-	92 928 347
-	(1 681 225)
-	215 338
-	<b>91 462 460</b>

#### Allowance for impairment

Audited Balance

Correction of error: System error occurred in the prior years

-	(83 464 747)
-	1 681 225
-	<b>(81 783 522)</b>

#### Investment Property

Audited Balance

Correction of error: Take on balance

-	86 510 000
-	3 785 000
-	<b>90 295 000</b>

#### Property, plant and equipment

Audited balance

Correction of error

-	372 987 580
-	(11 878 628)
-	<b>361 108 952</b>

#### Payables from exchange transactions

Audited Balance

Correction of error

-	26 437 297
-	1 879 121
-	<b>28 316 418</b>

#### Receivables from non exchange transactions

Audited balance

Correction of error system error occurred in the prior years

-	73 027 682
-	(6 628 181)
-	<b>66 399 501</b>

#### Unspent conditional grants

Audited balance

Correction of error: reversal of pound grant from imbube cultural village

-	10 875
-	1 000 000
-	<b>1 010 875</b>

#### Rental of facilities and equipment

Audited balance

Correction of error

-	747 533
-	215 338
-	<b>962 871</b>

#### Contracted services

Audit balance

Correction of error

-	28 230 000
-	1 863 204
-	<b>30 093 204</b>

#### General expenses

Audited balance

Correction of error

-	45 034 764
-	(28 359)
-	<b>45 006 405</b>

# **uPHONGOLO Local Municipality**

Annual Financial Statements for the year ended 30 June 2019

## **Notes to the Annual Financial Statements**

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### **43. Prior period error (continued)**

#### **Grants**

Audited balance  
Correction of error

- 163 511 443  
- (15 501 497)  
**- 148 009 946**

#### **Depreciation**

Audited balance  
Correction of error

- 13 549 195  
- 99 532  
**- 13 648 727**

#### **Finance costs**

Audited balance  
Correction of error

- 1 381 584  
- 32 543  
**- 1 414 127**

#### **Employee related costs**

Audited balance  
Correction of error

- 74 013 395  
- 2 755  
**- 74 016 150**

#### **Accumulated surplus**

Audited balance  
Correction of error

- 498 334 211  
- (20 090 667)

#### **Restated balance**

**- 478 243 544**

#### **Property rates**

Audited balance  
Correction of error

- 35 294 654  
- (6 628 181)  
**- 28 666 473**

### **44. Risk management**

#### **Financial risk management**

The municipality's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

#### **Capital risk management.**

The municipality's objective when managing capital are to safeguard the municipality's ability to continue as a going concern in order to provide returns for member and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The capital structure of the municipality consists of debt, which includes borrowings (excluding derivative financial liabilities) disclosed in note 12, cash and cash equivalents disclosed in note 3, and equity as disclosed in the statement of financial position. There are no externally imposed capital requirements. There have been no changes to what the municipality manages as capital, the strategy for capital maintenance or externally imposed capital requirements from the previous year.

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### 44. Risk management (continued)

#### Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

Consumer deposits	2 085 697	2 149 309
Trade payables from exchange transactions	53 429 154	28 316 418
Current portion of loans	3 850 735	3 581 239
Non-Current portion of loans	2 804 636	4 312 039
	<b>62 170 222</b>	<b>38 359 005</b>

#### Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by council.

Financial assets exposed to credit risk at year end were as follows:

#### Financial instrument

	2019	2018
Cash and cash equivalents	7 166 587	450 470
Trade and other receivables from exchange transactions	104 458 013	91 462 461
Trade and other receivables from non-exchange transactions	85 042 417	71 020 812

#### Market risk:

#### Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

### 45. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

### 46. Events after the reporting date

There were no material non-adjusting events that came to the attention of management after the reporting date.

### 47. Unauthorised expenditure

Opening balance	16 177 098	16 177 098
Current year expenditure	-	1
Opening balance as restated	<b>16 177 098</b>	<b>16 177 099</b>
Closing balance	<b>16 177 098</b>	<b>16 177 099</b>

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### 47. Unauthorised expenditure (continued)

The above unauthorised expenditure within the votes is as a result of year-end accounting transactions not budgeted for. This unauthorised expenditure will be tabled in a special adjustment budget when the annual report is tabled in accordance with section 23(6) of the Budget and Reporting Regulations. Despite the significant overspending on some of the votes, the total expenditure exceeded the budget by an insignificant amount.

### 48. Fruitless and wasteful expenditure

Opening balance

**Opening balance as restated**

Add: Current year-interest and penalties

**Closing balance**

1 546 858 1 123 416

**1 546 858 1 123 416**

183 342 423 442

**1 730 200 1 546 858**

The fruitless and wasteful expenditure incurred during the current year has not yet been presented to council. The following incidents occurred in the previous year and have not yet been finalised.

Fruitless and wasteful expenditure relates to interest and penalties on late payments.



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**48. Fruitless and wasteful expenditure (continued)**

Expenditure identified in the current year include those listed below:

Interest on late payments	Disciplinary steps taken/criminal proceedings		
Payment for refuse drums	Reported to council	183 342	423 442
Payment for accommodation	Handed over to lawyers for collection	-	342 341
	Handed over to lawyers for collection	-	781 075
		<b>183 342</b>	<b>1 546 858</b>

**49. Irregular expenditure**

Opening balance as previously reported	121 037 759	82 775 143
Prior year irregular expenditure identified in the current period	801 031	1 546 314
<b>Awards to persons in service of the state</b>	<b>121 838 790</b>	<b>84 321 457</b>
Awards to persons in service of the state	-	1 007 136
Acting period exceeding legislated timeframe	-	93 355
Overtime exceptions	-	145 886
SCM processes not followed	2 608 540	35 469 925
<b>Closing balance</b>	<b>124 447 330</b>	<b>121 037 759</b>

Incidents/cases identified in the current year include those listed below:

SCM processes not followed	Disciplinary steps taken/criminal proceedings		
Overtime exception	Reported to council	2 608 540	37 016 239
Acting period exceeding legislated timeframe	Reported to council	-	145 886
Award to persons in service of the state	To be reported to council	-	93 335
	Reported to council	-	1 007 136
		<b>2 608 540</b>	<b>38 262 596</b>

# uPHONGOLO Local Municipality

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### 49. Irregular expenditure (continued)

#### Cases under investigation

The councillors referred the irregular expenditure incurred prior to 2016/17 to MPAC for investigation. The irregular expenditure for the current year has been presented to council on a quarterly basis.

Management is still in the process of quantifying the full extent of items to be included

### 50. Additional disclosure in terms of Municipal Finance Management Act

#### Contributions to organised local government

Opening balance

Current year subscription / fee

Amount paid - current year

-	69 374
891 030	713 000
(810 750)	(782 374)
<b>80 280</b>	<b>-</b>

#### Electricity losses

Units purchased - current year

Units sold - current year

28 936 801	28 943 327
(25 628 334)	(27 152 291)
<b>3 308 467</b>	<b>1 791 036</b>

#### Electricity losses in Rands comprises of:

Electrical losses

3 204 629	1 570 259
-----------	-----------

#### Percentage loss:

Electrical losses

11	6
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The municipality purchased 28 936 801 units (2018: 28 943 327 units) from Eskom and sold 25 628 334 units (2018: 27 152 291 units) to consumers. This represents a loss of 3 308 467 units (2018: 1 791 036 units) which equates to R3 204 629 (2018: R1 570 259) and translates to a percentage loss of 11.4% (2018: 6.2%). The electricity losses are as a result of technical losses and illegal connections.

#### Audit fees

Opening balance

Current year subscription / fee

Amount paid - current year

-	21 572
1 565 680	1 563 214
(1 565 680)	(1 584 786)
<b>-</b>	<b>-</b>

#### PAYE, SDL and UIF

Opening balance

Current year subscription / fee

Amount paid - current year

1 924 699	2 158 941
14 915 407	13 897 976
(15 594 696)	(14 132 218)
<b>1 245 410</b>	<b>1 924 699</b>

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### 50. Additional disclosure in terms of Municipal Finance Management Act (continued)

#### Pension and Medical Aid Deductions

Opening balance	1 642 802	1 002 797
Current year subscription / fee	14 579 079	13 975 309
Amount paid - current year	(15 807 207)	(13 335 304)
	<b>414 674</b>	<b>1 642 802</b>

#### VAT

VAT receivable

1 638 101      1 563 752

All VAT returns have been submitted by the due date throughout the year.

#### Councillors' arrear consumer accounts

No Councillors had arrear accounts outstanding for more than 90 days at 30 June 2019 and 30 June 2018

### 51. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

#### Section 36 Deviations

Sole supplier -s36(1)(a)(ii)

Impractical or impossible to follow the official procurement process -s36(1)(a)(v)

98 961      726 709  
-      1 200

**98 961      727 909**

### 52. Budget

Material differences was considered for variances above 10% in the budget statement.

Expenditure

Depreciation and amortisation increased due to completed projects that were realised from Work-in-progresses.

Debt impairment decreased due to the qualifying indigents households that were excluded in the calculation of the provision.

The increase in contracted services is attributable to increased VIP protection expenditure, Implementation of MSCOA regulation, grass-cutting services.

Transfers and subsidies decreased due to Council resolved to stop providing the free basic services until the indigent register is finalised.

### 53. Reclassification

Incorrect recognition of leave payout and unwinding of the interest relating to the landfill site.

# **uPHONGOLO Local Municipality**

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### **53. Reclassification (continued)**

	<b>As previously reported</b>	<b>Reclassificati on</b>	<b>Total</b>
Employee related costs	74 016 150	452 593	74 468 743
Contribution to provision	789 421	(789 421)	-
Finance costs	1 414 127	336 828	1 750 955
	<b>76 219 698</b>	<b>-</b>	<b>76 219 698</b>